

Message Text

UNCLASSIFIED

PAGE 01 BONN 12994 01 OF 03 091657Z
ACTION EUR-12

INFO OCT-01 EA-09 ISO-00 AID-05 CIAE-00 COME-00 EB-08
FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04
CEA-01 L-03 H-02 PA-02 PRS-01 /109 W
-----053627 091729Z /42

R 091646Z AUG 77
FM AMEMBASSY BONN
TO SECSTATE WASHDC 0509
DEPARTMENT TREASURY
INFO AMEMBASSY BERN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY PARIS
AMEMBASSY ROME
AMEMBASSY TOKYO
AMCONSUL FRANKFURT

UNCLAS SECTION 01 OF 03 BONN 12994

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DEPARTMENT PASS FEDERAL RESERVE

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E.O. 11652: N/A
TAGS: EFIN, GW
SUBJECT: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 8)

REF.: BONN 12847 AND 12936

1. SCHMIDT CALLS CABINET-LEVEL MEETING: CHANCELLOR
SCHMIDT HAS SUMMONED THE HEADS OF THE GERMAN MINISTRIES
OF FINANCE, ECONOMICS, LABOR AND FOREIGN MINISTER
GENSCHER TO A MEETING IN HAMBURG TODAY, AUGUST 9 TO
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PAGE 02 BONN 12994 01 OF 03 091657Z

DISCUSS THE ECONOMIC SITUATION AND THE GOVERNMENT'S 1978
BUDGET PLANS. IN GOVERNMENT CIRCLES IT IS THOUGHT,
HOWEVER, THAT POSSIBLY ALSO NEW ECONOMIC STIMULATIVE
MEASURES WILL BE DISCUSSED. BUNDESBANK PRESIDENT
EM MINGER WILL REPORTEDLY ALSO PARTICIPATE. IN THE
MEANTIME, GOVERNMENT SPOKESMAN GRUENEWALD, WHILE CON-
CEEDING THAT PREVIOUS FRG EXPECTATIONS FOR GNP GROWTH

AND UNEMPLOYMENT REDUCTIONS IN 1977 COULD NO LONGER BE REALIZED, DENIED REPORTS THAT ECONOMICS MINISTER FRIDERICH'S HAD SECRETLY OR OTHERWISE SENT LETTERS TO CHANCELLOR SCHMIDT AND FRG CABINET MEMBERS DESCRIBING IN PESSIMISTIC TERMS THE OUTLOOK FOR THE GERMAN ECONOMY. REPORTS OF THE FRIDERICH'S LETTER APPEARED FIRST IN THE LATEST (AUG. 8) ISSUE OF THE NEWS-MAGAZINE DER SPIEGEL. THE ARTICLE ALLEGED THAT ECONOMIC MINISTER FRIDERICH'S, IN LETTERS TO CHANCELLOR SCHMIDT, FINANCE MINISTER APEL AND LABOR MINISTER EHRENBURG AT THEIR VACATION RESORTS, FORECAST A WORSENING OF CONDITIONS ON THE ECONOMIC AND LABOR MARKET FRONTS IN THE NEAR TERM.

2. CENTRAL BANK MONEY:

IN JUNE, CENTRAL BANK MONEY (CBM), SEASONALLY ADJUSTED, INCREASED BY DM 1.5 BILLION BRINGING THE TOTAL VOLUME UP TO DM 124.5 BILLION. IN MAY, CENTRAL BANK MONEY HAD INCREASED BY DM 1.0 BILLION FOLLOWING A DM 0.5 BILLION DECLINE IN APRIL. IN THE PERIOD JANUARY-JUNE, CENTRAL BANK MONEY WAS 8.7 PERCENT HIGHER THAN IN THE SAME PERIOD A YEAR AGO. ASSUMING FOR THE SECOND HALF OF 1977 THE SAME RATE OF CBM GROWTH AS IN THE FIRST HALF OF THE YEAR, CBM WOULD SHOW A 8.2 PERCENT INCREASE FOR 1977 (AVERAGE 1977 OVER AVERAGE 1976), THUS SOMEWHAT EXCEEDING THE BUNDESBANK'S 8 PERCENT GROWTH GOAL FOR 1977.

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PAGE 03 BONN 12994 01 OF 03 091657Z

3. BUNDESBANK FOREIGN POSITION:

DURING THE PERIOD JULY 24-31 THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 0.6 BILLION. GERMANY'S IMF GOLD TRANCHE POSITION DECLINED BY DM 306 MILLION AND FOREIGN LIABILITIES BY ABOUT DM 110 MILLION. FOREIGN EXCHANGE HOLDINGS ROSE BY DM 791 MILLION. IN THE FULL MONTH OF JULY THE BUNDESBANK'S NET FOREIGN POSITION INCREASED BY DM 2.0 BILLION TO DM 87.0 BILLION.

4. BANK LIQUIDITY:

DURING THE SAME PERIOD BANKS REDUCED THEIR INDEBTEDNESS TO THE BUNDESBANK BY DM 3.6 BILLION. LOMBARD BORROWINGS DECLINED BY DM 3.0 BILLION TO DM 1.7 BILLION, NORMAL REDISCOUNT BORROWINGS BY DM 0.6 BILLION TO DM 17.1 BILLION WHILE SPECIAL REDISCOUNT BORROWINGS INCREASED BY DM 0.1 BILLION TO DM 4.7 BILLION.

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PAGE 01 BONN 12994 02 OF 03 091701Z
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UNCLAS SECTION 02 OF 03 BONN 12994

A MAJOR FACTOR INCREASING LIQUIDITY WAS USUAL END-OF-MONTH PAYMENTS OF FEDERAL AND STATE GOVERNMENTS. DUE TO SUCH PAYMENTS THE FEDERAL GOVERNMENT'S NET ASSETS HELD AT THE BUNDESBANK DECLINED BY DM 3.6 BILLION TO DM 0.5 BILLION AND THE STATE GOVERNMENTS' ASSETS BY DM 3.7 BILLION TO DM 2.9 BILLION. THE FEDERAL POST SYSTEM, ON THE OTHER HAND, INCREASED ITS BUNDESBANK ASSETS BY DM 7.8 BILLION. THIS REFLECTED MAINLY UNSETTLED SOCIAL INSURANCE PENSIONS SINCE THE END OF JULY FELL ON A WEEKEND. (IN GERMANY SOCIAL INSURANCE PENSIONS ARE PAID THROUGH THE POSTAL SYSTEM.) THE ABOVE-MENTIONED INCREASE IN THE BUNDESBANK'S FOREIGN POSITION AND OTHER, UNSPECIFIED FACTORS INCREASED LIQUIDITY BY
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PAGE 02 BONN 12994 02 OF 03 091701Z

DM 8.5 BILLION. FACTORS REDUCING LIQUIDITY WERE THE USUAL INCREASE IN CURRENCY IN CIRCULATION AT THE END OF

A MONTH (DM 3.1 BILLION) AND A DM 1.3 BILLION INCREASE
IN THE BANKS' HOLDINGS OF RESERVES AT THE BUNDESBANK.

5. FOREIGN EXCHANGE MARKET:

THE DOLLAR STRENGTHENED ON GERMAN FOREIGN EXCHANGE
MARKETS DURING THE PERIOD UNDER REVIEW. FOREIGN EXCHANGE
DEALERS CREDITED STATEMENTS OVER THE WEEKEND FROM FINANCE
MINISTER APEL AND SECRETARY BLUMENTHAL (SEE BONN 12936)
WITH CONTINUING THE MOMENTUM OF THE DOLLAR'S
RECOVERY. FOR THE PERIOD, FRANKFURT SPOT AND FORWARD
DOLLAR RATES WERE AS FOLLOWS:

	FORWARD DOLLARS				
	SPOT DOLLARS (IN PCT. PER ANNUM)				
	OPENING	FIXING	CLOSING	ONE-MONTH	THREE-MONTH
AUG 2	2.2995	2.2901	2.2900	-1.7	-2.4
3	2.2825	2.2860	2.2875	-1.8	-2.2
4	2.2910	2.2911	2.2990	-1.7	-2.4
5	2.2950	2.2957	2.2935	-2.5	-2.3
8	2.3075	2.3042	2.3145	-2.3	-2.5
9	2.3115	2.3124	N.A.	N.A.	N.A.

6. MONEY MARKET:

DURING THE PERIOD AUGUST 2-8, FRANKFURT INTERBANK RATES
DEVELOPED AS FOLLOWS:

	CALL MONEY	ONE-MONTH	THREE-MONTH
AUG 2	3.95-4.05	4.00	4.00
3	3.9-4.0	4.00	4.00

UNCLASSIFIED

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PAGE 03 BONN 12994 02 OF 03 091701Z

4	3.8-3.9	4.00	4.00
5	3.75-3.85	4.00	4.00
8	3.8-3.9	4.00	4.00

7. BOND MARKET:

DURING MOST OF THE REPORTING PERIOD PRICE INCREASES
FOR DOMESTIC BONDS CONTINUED BUT CAME TO A HALT AT THE
BEGINNING OF THIS WEEK. ACCORDING TO THE PRESS, AVERAGE
YIELDS OF OUTSTANDING BONDS BROKEN DOWN BY REMAINING
MATURITY WERE AS FOLLOWS:

REMAINING MATURITY	(YEARS)						
	1	3	5	6	8	10	
AUGUST 5	4.40	5.00	5.55	5.75	6.10	6.35	
JULY 24	4.50	5.30	5.70	5.90	6.25	6.45	

THE NEXT DOMESTIC LOAN WILL BE A DM 700-800
MILLION LOAN OF THE FEDERAL RAILWAYS THE CONDITIONS
OF WHICH WILL BE DECIDED ON AUGUST 12. IT IS EXPECTED
THAT THE COUPON WILL BE 6 PERCENT, THE ISSUE PRICE
SLIGHTLY BELOW PAR AND THE MATURITY 10 YEARS. WITH
THESE CONDITIONS THE RAILWAY LOAN WOULD BE THE FIRST
LOAN SINCE EARLY 1969 OFFERED AT A COUPON OF 6 PERCENT.

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PAGE 01 BONN 12994 03 OF 03 091713Z

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FM AMEMBASSY BONN

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DEPARTMENT TREASURY

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UNCLAS SECTION 03 OF 03 BONN 12994

SINCE THAT TIME ALL DOMESTIC BOND ISSUES CARRIED HIGHER
COUPONS REACHING A RECORD OF 10 PERCENT IN SUMMER 1974.
(AT THAT TIME BONDS CARRIED MATURITIES OF 5 YEARS AND
WERE SOLD AT ISSUE PRICES OF ABOUT 98 SO THAT THE YIELD
TO MATURITY WAS EVEN ABOUT 10 1/2 PERCENT).

8. FOREIGN DM BONDS:

ON THE MARKET FOR FOREIGN DM BONDS THE A/S ARDAL OG
SUNNDAL (NORWAY) HAS PRIVATELY PLACED BONDS OF DM 20
MILLION (COUPON 6 3/4 PERCENT). ISSUES OF THE FOLLOWING

FOREIGN BORROWERS HAVE BEEN ANNOUNCED FOR THE NEXT WEEKS: QUEBEC HYDRO-ELECTRIC COMMISSION (DM 200 MILLION, COUPON 6 1/2 OR 6 3/4 PERCENT); CENTRALE ELECTRICITAS BRASILEIRAS (ELECTROBAS); (DM 150 MILLION, COUPON 7 1/4 UNCLASSIFIED

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PAGE 02 BONN 12994 03 OF 03 091713Z

PERCENT); CFE (MEXICAN ELECTRICITY FIRM, DM 60 MILLION, COUPON 7 1/4 PERCENT, MATURITY 5 YEARS); SOUTH AFRICAN IRON AND STEEL CORPORATION (ISCOR, DM 150 MILLION, COUPON PROBABLY 8 1/4 PERCENT, MATURITY 5 YEARS); PETROLEOS MEXICANOS (DM 150 MILLION); GIROZENTRALE, VIENNA (DM 100 MILLION); PYHRN AUTOBAHN (AUSTRIAN HIGHWAY FIRM; DM 50 MILLION); MALAYSIA (DM 100 MILLION), AND THE PHILIPPINES.

9. ECONOMIC INDICATORS PUBLISHED THIS WEEK:
SEASONALLY NON-ADJUSTED DATA

	APRIL	MAY	JUNE	JULY
LIVING COSTS				
(1970 EQUALS 100)	145.9	146.5	147.2	147.0
PERCENT CHANGE				
OVER 1976	3.8	3.8	4.0	4.3
UNEMPLOYMENT				
(IN THOUSANDS)	1.039	946	931	973
UNEMPLOYMENT RATE	4.6	4.2	4.1	4.3
JOB OPENINGS				
(IN THOUSANDS)	246	243	262	257
SHORT-TIME WORKERS				
(IN THOUSANDS)	242	317	256	210

SEASONALLY ADJUSTED DATA

UNEMPLOYMENT				
(IN THOUSANDS)	1.019	1.035	1.041	1.049
JOB OPENINGS	230	214	225	224

UNCLASSIFIED

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PAGE 03 BONN 12994 03 OF 03 091713Z

ACCORDING TO THE LATEST BUSINESS SURVEY DATA OF THE IFO ECONOMIC RESEARCH INSTITUTE BUSINESS PESSIMISM FURTHER INCREASED IN JUNE. THE MARGIN OF RESPONDENTS WHO CONSIDERED THE CURRENT SITUATION AS POOR OVER THOSE WHO CHARACTERIZED IT AS GOOD WAS 20 PERCENT IN JUNE AS

COMPARED WITH 19 PERCENT IN MAY AND 17 PERCENT IN APRIL..
AT THE SAME TIME, THE NUMBER OF PRODUCERS EXPECTING A
PICK-UP OF BUSINESS DURING THE NEXT 6 MONTHS WAS
EXCEEDED BY PESSIMISTIC RESPONDENTS IN JUNE BY 9 PERCENT
(MAY 14 PERCENT; APRIL 12 PERCENT).

JUNE ORDER AND INDUSTRIAL PRODUCTION DATA HAVE
BEEN REPORTED IN BONN'S 12847.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FINANCE, ECONOMIC CONDITIONS, MINISTERIAL MEETINGS, CENTRAL GOVERNMENT
Control Number: n/a
Copy: SINGLE
Sent Date: 09-Aug-1977 12:00:00 am
Decaption Date: 01-Jan-1960 12:00:00 am
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01-Jan-1960 12:00:00 am
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BONN12994
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770286-0484
Format: TEL
From: BONN USEEC
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1977/newtext/t19770883/aaaacsfx.tel
Line Count: 341
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 7f01dd5f-c288-dd11-92da-001cc4696bcc
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 7
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 BONN 12847
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 22-Oct-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1668152
Secure: OPEN
Status: NATIVE
Subject: FINANCIAL DEVELOPMENTS (WEEK ENDING AUGUST 8)
TAGS: EFIN, GE, (SCHMIDT, HELMUT)
To: STATE TRSY
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/7f01dd5f-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009